

UNIVERSITY OF SWAZILAND
DEPARTMENT OF ACCOUNTING
SUPPLEMENTARY EXAMINATION PAPER 2012

DEGREE/DIPLOMA AND YEAR OF STUDY: B.COM V

TITLE OF PAPER : MANAGEMENT ACCOUNTING II

TIME OF PAPER : TWO (2) HOURS

INSTRUCTIONS:

1. TOTAL NUMBER OF QUESTIONS ON THIS PAPER :
FOUR (4)
2. ANSWER QUESTION ONE AND ANY OTHER TWO
QUESTIONS
3. THE MARKS AWARDED FOR A QUESTION/PART
ARE INDICATED AT THE END OF EACH
QUESTION/PART OF THE QUESTION
4. ALL CALCULATIONS ARE TO BE MADE TO THE
NEAREST LILANGENI
5. WHERE APPLICABLE, SUBMIT ALL WORKINGS AND
CALCULATIONS

NOTE : YOU ARE REMINDED THAT IN ASSESSING YOUR WORK,
ACCOUNT WILL BE TAKEN OF ACCURACY OF THE
TOGETHER WITH THE LAYOUT AND PRESENTATION OF
YOUR FINAL ANSWER.

SPECIAL REQUIREMENTS : NONE

**THIS PAPER IS NOT TO BE OPENED UNTIL PERMISSION HAS BEEN
GRANTED BY THE INVIGILATOR.**

QUESTION 1

Bambanani Ltd purchased a special machine a year ago at a cost of E12500. At that time, the machine was estimated to have a useful life of six years and a E500 disposal value. The annual cash operating cost is approximately E20,000.

A new machine that has just come on the market will do the same job but with an annual cash operating cost of only E17 000. This new machine costs E16000 and has an estimated life of five years with a E1000 disposal value. The old machine could be used as a trade in at an allowance of E5000.

Straightline depreciation is used and the company's income tax rate is 50 percent.

REQUIRED:

Compute the internal rate of return on the new investment (40 Marks)

Question 2

A. Electro Division, is an autonomous segment of Mbabane motors, it is considering what transfer price to set for transfers of its components to Division B. The following data on production cost per component have been gathered:

Direct material	E1.40
Direct labour	3.95
Variable overhead	1.60
Fixed overhead	<u>2.40</u>
Total	<u>E9.35</u>

The Electro Division sells the components to external buyers for E21.50. Managers of Division B have received external offers to provide the division comparable components, ranging from E15 at one company to E23 at another.

Required:

- i) Determine the upper and lower limits for the transfer price between the Electro Division and Division B. **(5 Marks)**
- ii) If –the Electro Division is presently selling all the components it can produce to external buyers, what is the minimum price it should set for transfer price to division B? **(5 Marks)**

B. Two investment centres of Sambulo Ltd are Sam Division and Mbho Division which can be sold externally and also used by Mbho. Division in making Product MB. The following information is available about product MB:

Total annual production n- 200 000 units; internal requirements are 150,000 units all others are sold externally.

Selling price per unit E25,60

Variable production cost per unit E12

Total fixed overhead - E300,000; allocated on the basis of units of production

Variable selling costs per unit E3; includes E1 per unit in advertising cost.

Total fixed selling costs – E400,000

Required:

Determine the transfer price under each of the following methods:

- i) Total variable cost **(5 Marks)**
- ii) Full production cost **(5 Marks)**
- iii) Total variable production cost plus necessary selling costs **(5 Marks)**
- iv) Market price **(5 Marks)**

(Total 30 Marks)

Question 3

A. Zama Ltd has target rate of return of 22% for one of its divisions. For 2011, the targeted division generated gross revenue of E5,000,000 on average assets of E3,000,000. The targeted division's variable costs were 30% of sales and fixed costs were E2,000,000.

Required:

For 2011 compute the division's

- i) return on investment (ROI) (4 Marks)
- ii) Residual income (4 Marks)
- iii) Profit margin (4 Marks)
- iv) Asset turnover (4 Marks)

B. Abande Ltd relies on residual income measure to evaluate the performance of segment managers. The target rate of return for all segments (divisions) is 12%. One segment, TD, generated segment profit (income) of E750,000 for the year just ended. For the same period, TD's residual income was E310,000.

Required: Compute

- i) the amount of average assets employed by TD division(segment) (4 Marks)
- ii) the ROI for TD division (4 Marks)
- iii) advise management on the basis of your computations in B(ii) above (6 Marks)

(Total 30 Marks)

Question 4

Required:

Write short notes on the possible factors that affect the pricing decision

Total (30 Marks)